

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q/A  
(Amendment No. 1)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the quarterly period ended September 30, 2005

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-23702

STEVEN MADDEN, LTD.

(Exact name of Registrant as specified in its charter)

Delaware

13-3588231

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

52-16 Barnett Avenue, Long Island City, New York

11104

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code

(718) 446-1800

Indicate by check mark whether the Registrant: (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
Registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.  
Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant is a shell company (as defined  
by Rule 12b-2 of the Exchange Act). Yes  No

As of November 4, 2005, the latest practicable date, there were 13,700,567  
shares of common stock, \$.0001 par value, outstanding.

Explanatory Note

Steven Madden, Ltd. (the "Company") is filing this Amendment No. 1 to its  
Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, as filed  
with the Securities and Exchange Commission on November 9, 2005 to (1) restate  
the full text of the Quarterly Report as originally filed, (2) to indicate on  
the cover that the Company is not (and at the time of the filing was not) a  
shell company as defined in Rule 12(b)-2 of the Securities and Exchange Act of  
1934, as amended, and (3) correct errors in and refile Exhibits 31.1, 31.2, 32.1  
and 32.2.

STEVEN MADDEN, LTD.  
FORM 10-Q/A  
QUARTERLY REPORT  
September 30, 2005

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PART I. FINANCIAL INFORMATION  
Item 1. Condensed Consolidated Financial Statements

STEVEN MADDEN, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets  
(in thousands)

	September 30, 2005	December 31, 2004	September 30, 2004
	----- (unaudited)	----- (unaudited)	----- (unaudited)
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 55,708	\$ 30,853	\$ 18,128
Accounts receivable, net of allowances of \$703, \$536 and \$688	2,986	3,322	3,223
Due from factor, net of allowances of \$4,298, \$2,379 and \$1,973	45,508	33,711	45,370
Inventories	22,663	34,384	30,441
Marketable securities - available for sale	15,449	12,784	10,183
Prepaid expenses and other current assets	1,329	1,287	2,403
Prepaid taxes	349	2,255	405
Deferred taxes	2,566	2,498	2,292
	-----	-----	-----
Total current assets	146,558	121,094	112,445
Property and equipment, net	20,855	20,715	20,372
Deferred taxes	5,943	5,780	5,618
Deposits and other	495	435	428
Marketable securities - available for sale	28,470	36,340	40,225
Cost in excess of fair value of net assets acquired	1,547	2,066	2,066
	-----	-----	-----
	\$ 203,868	\$ 186,430	\$ 181,154
	=====	=====	=====
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 10,973	\$ 13,450	\$ 7,571
Accrued expenses	8,293	5,807	4,401
Accrued incentive compensation	1,938	420	292
	-----	-----	-----
Total current liabilities	21,204	19,677	12,264
Deferred rent	2,373	2,088	2,141
	-----	-----	-----
	23,577	21,765	14,405
	-----	-----	-----
Commitments, contingencies and other			
<b>STOCKHOLDERS' EQUITY</b>			
Preferred stock - \$.0001 par value, 5,000 shares authorized; none issued; Series A Junior Participating preferred stock - \$.0001 par value, 60 shares authorized; none issued			
Common stock - \$.0001 par value, 60,000 shares authorized, 15,934, 14,608 and 14,582 shares issued, 13,700, 12,818 and 13,054 outstanding			
	2	1	1
Additional paid-in capital	91,872	80,631	79,395
Retained earnings	115,212	103,451	103,078
Unearned compensation	(26)	(703)	(1,663)
Other comprehensive gain:			
Unrealized gain (loss) on marketable securities	(1,343)	(1,024)	(829)
Treasury stock - 2,234, 1,790 and 1,528 shares at cost	(25,426)	(17,691)	(13,233)
	-----	-----	-----
	180,291	164,665	166,749
	-----	-----	-----
	\$ 203,868	\$ 186,430	\$ 181,154
	=====	=====	=====

See accompanying notes to consolidated financial statements - unaudited

## STEVEN MADDEN, LTD. AND SUBSIDIARIES

Consolidated Statements of Operations  
(unaudited)  
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net sales:				
Wholesale	\$ 71,018	\$ 64,851	\$ 196,210	\$ 179,722
Retail	29,049	23,759	88,151	73,890
	-----	-----	-----	-----
	100,067	88,610	284,361	253,612
	-----	-----	-----	-----
Cost of sales:				
Wholesale	48,761	45,629	135,314	122,472
Retail	15,075	11,531	45,988	35,706
	-----	-----	-----	-----
	63,836	57,160	181,302	158,178
	-----	-----	-----	-----
Gross profit:				
Wholesale	22,257	19,222	60,896	57,250
Retail	13,974	12,228	42,163	38,184
	-----	-----	-----	-----
	36,231	31,450	103,059	95,434
Commission and licensing fee income - net	2,217	1,175	5,241	3,224
Operating expenses	(29,447)	(26,758)	(88,902)	(79,635)
Impairment of cost in excess of fair value of net assets acquired	--	--	(519)	--
	-----	-----	-----	-----
Income from operations	9,001	5,867	18,879	19,023
Interest and other income, net	504	488	1,398	1,497
	-----	-----	-----	-----
Income before provision for income taxes	9,505	6,355	20,277	20,520
Provision for income taxes	3,992	2,669	8,516	8,618
	-----	-----	-----	-----
Net income	\$ 5,513	\$ 3,686	\$ 11,761	\$ 11,902
	=====	=====	=====	=====
Basic income per share	\$ 0.41	\$ 0.28	\$ 0.89	\$ 0.90
	=====	=====	=====	=====
Diluted income per share	\$ 0.39	\$ 0.26	\$ 0.85	\$ 0.83
	=====	=====	=====	=====
Basic weighted average common shares outstanding	13,503	13,177	13,272	13,243
Effect of dilutive securities - options/warrants/restricted stock	542	1,043	504	1,085
	-----	-----	-----	-----
Diluted weighted average common shares outstanding	14,045	14,220	13,776	14,328
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements - unaudited

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## STEVEN MADDEN, LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows  
(unaudited)  
(in thousands)

	Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities:		
Net income	\$ 11,761	\$ 11,902
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,037	3,654
Impairment of cost in excess of fair value of net assets acquired	519	
Non-cash compensation	677	1,479
Provision for bad debts	2,086	283
Deferred rent expense	285	313
Realized loss (gain) on marketable securities	182	(70)
Changes in:		
Accounts receivable	169	822
Due from factor	(13,716)	(16,669)
Inventories	11,721	(6,583)
Prepaid expenses, prepaid taxes, deposits and other assets	1,771	4,248
Accounts payable and other accrued expenses	1,527	(4,687)
Net cash provided by (used in) operating activities	21,019	(5,308)
Cash flows from investing activities:		
Purchase of property and equipment	(4,144)	(5,635)
Purchase of marketable securities	(1,156)	(26,132)
Sale/redemption of marketable securities	5,629	7,150
Net cash provided by (used in) investing activities	329	(24,617)
Cash flows from financing activities:		
Proceeds from options and warrants exercised	13,009	223
Cash in lieu of restricted stock	(1,767)	
Purchase of treasury stock	(7,735)	(5,242)
Repayment of lease obligations	--	(1)
Net cash provided by (used in) financing activities	3,507	(5,020)
Net increase (decrease) in cash and cash equivalents	24,855	(34,945)
Cash and cash equivalents - beginning of period	30,853	53,073
Cash and cash equivalents - end of period	\$ 55,708	\$ 18,128

See accompanying notes to consolidated financial statements - unaudited

Notes to Consolidated Financial Statements - Unaudited  
September 30, 2005  
(\$ in thousands except per share data)

NOTE A - BASIS OF REPORTING

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying statements include all adjustments (consisting only of normal recurring items) that are considered necessary for a fair presentation of the financial position of Steven Madden, Ltd. and subsidiaries (the "Company") and the results of its operations and cash flows for the periods presented. The results of its operations for the three- and nine-month periods ended September 30, 2005 are not necessarily indicative of the operating results for the full year. It is suggested that these financial statements be read in conjunction with the financial statements and related disclosures for the year ended December 31, 2004 included in the Annual Report of Steven Madden, Ltd. on Form 10-K filed with the SEC on March 16, 2005, as amended on April 11, 2005.

Certain reclassifications were made to prior year amounts to conform to the 2005 presentation.

NOTE B - CASH AND CASH EQUIVALENTS

On July 1, 2005, the Company terminated its factoring agreement with Capital Factors, Inc. ("Capital") and entered into a new factoring agreement with GMAC Commercial Finance, LLC (See note M[4]). Pursuant to the termination, the Company deposited \$10,114 in an escrow account with Capital as collateral against payments of outstanding letters of credit facilitated by Capital. The escrow balance as of September 30, 2005 was \$2,339 and was categorized as Cash and Cash Equivalents on the Balance Sheet. As of November 4, the remaining balance in the escrow account was reduced to \$464.

NOTE C - MARKETABLE SECURITIES

Marketable securities consist primarily of corporate bonds, U.S. treasury notes and government asset-backed securities with maturities greater than three months and up to five years at the time of purchase, as well as marketable equity securities. These securities, which are classified as available-for-sale, are carried at fair value with unrealized gains and losses, net of any tax effect, reported in shareholders' equity as accumulated other comprehensive income (loss). Amortization of premiums and discounts are included in interest income and are not material. The values of these securities may fluctuate as a result of changes in market interest rates and credit risk.

NOTE D - INVENTORIES

Inventories, which consist of finished goods on hand and in transit, are stated at the lower of cost (first-in, first-out method) or market.

NOTE E - REVENUE RECOGNITION

The Company recognizes revenue on wholesale sales when products are shipped pursuant to our standard terms which are freight on board (FOB) warehouse or when products are delivered to the consolidators as per the terms of the customers purchase order. Sales reductions for anticipated discounts, allowances and other deductions are recognized when sales are recorded. Retail sales are recognized when the payment is received from customers and are recorded net of returns. The Company earns commission income as a buying agent through its Adesso-Madden Division by arranging to produce private label shoes to the specifications of its customers. Commission revenue is recognized as earned when title of the product transfers from the manufacturer to the customer and is on a net basis after deducting operating expenses.

Notes to Consolidated Financial Statements - Unaudited  
September 30, 2005  
(\$ in thousands except per share data)

NOTE E - REVENUE RECOGNITION (CONTINUED)

The Company licenses its Steve Madden trademark for use in connection with the manufacturing, marketing and sale of belts, handbags, sunglasses, eyewear and hosiery products. Each license agreement requires the licensee to pay to the Company a royalty and advertising fee based on net sales as defined in the various agreements. A minimum royalty and advertising fee is due the Company in the event that specified net sales targets are not achieved. Licensing revenue is recognized on the basis of net sales reported by the licensees or, if greater, minimum guaranteed royalties when received and earned. In substantially all of the Company's license agreements, the minimum guaranteed royalty is earned and payable on a quarterly basis.

NOTE F - SALES DEDUCTIONS

The Company supports retailers' initiatives to maximize sales of the Company's products on the retail floor by subsidizing the co-op advertising programs of such retailers, providing them with inventory markdown allowances and participating in various other marketing initiatives of its major customers. These expenses are reflected in the financial statements as deductions to sales. For the three- and nine-month periods ended September 30, 2005, the total deduction to net sales for these expenses was \$9,682 and \$27,421, respectively, as compared to \$8,158 and \$22,782 for the comparable periods in 2004.

NOTE G - COST OF SALES

All costs incurred to bring finished products to the Company's distribution center are included in the cost of sales line item on the Consolidated Statement of Operations. These include purchase commissions, letter of credit fees, brokerage fees, FOB costs, sample expenses, custom duty, inbound freight, labels and product packaging. All warehouse and distribution costs are included in the operating expenses line item of the Company's Consolidated Statement of Operations. The Company classifies all shipping costs to customers as operating expenses. The Company's gross margins may not be comparable to other companies in the industry because some companies may include warehouse distribution, and royalty expenses as a component of cost of sales, while other companies report on the same basis as the Company and include them in operating expenses.

NOTE H - IMPAIRMENT OF COST IN EXCESS OF FAIR VALUE OF NET ASSETS ACQUIRED

On May 1, 1998, the Company purchased certain assets from and assumed certain liabilities of Daniel Scott, Inc. which operated two retail outlet stores under the name Shoe Biz. The acquisition was recorded at a total cost of approximately \$703, including related expenses, of which \$635 was allocated to cost in excess of fair value of the identifiable net assets acquired ("goodwill"). Prior to the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" in 2002, the Company had amortized approximately \$116 of the goodwill, resulting in a net value of \$519. During the year ended December 31, 2004, the Company operated four stores under the Shoe Biz name. In order to consolidate its resources to the Steve Madden brand, the Company has decided to discontinue using the Shoe Biz name. As a result, as of June 30, 2005, one Shoe Biz store has been converted to a Steve Madden store, while two other Shoe Biz stores have been closed. The remaining store operating under the Shoe Biz name has generated operating losses during the last two fiscal years and the net present value of the future cash flows of this store is negative. As a result, the entire balance of the goodwill of \$519 is considered impaired and was recognized as a reduction of income in the second quarter of 2005.

## Notes to Consolidated Financial Statements - Unaudited

September 30, 2005

(\$ in thousands except per share data)

## NOTE I - NET INCOME PER SHARE OF COMMON STOCK

Basic income per share is based on the weighted average number of common shares outstanding during the period. Diluted income per share reflects the potential dilution assuming common shares were issued upon the exercise of outstanding options and the proceeds thereof were used to purchase outstanding common shares. Diluted income per share also reflects the unvested and un-issued shares promised to employees that have a dilutive effect. For the three- and nine-month periods ended September 30, 2005, none and approximately 185,000 stock options, respectively, have been excluded from the calculation because inclusion of such shares would be antidilutive, as compared to approximately 1,210,000 and 135,000 stock options, excluded respectively, for the three- and nine-months ended September 30, 2004.

## NOTE J - STOCK-BASED COMPENSATION

SFAS No. 123, "Accounting for Stock-Based Compensation", encourages the use of the fair value based method of accounting for stock-based employee compensation. Alternatively, SFAS No. 123 allows entities to continue to apply the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees" ("APB Opinion 25"), and related interpretations and provide pro forma disclosures of net income and earnings per share, as if the fair value based method of accounting had been applied to employee awards. The Company has elected to continue to apply the provisions of APB Opinion 25 and provide the disclosures required by SFAS No. 123 and SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure", which was released in December 2003 as an amendment of SFAS No. 123. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all awards.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Reported net income	\$ 5,513	\$ 3,686	\$ 11,761	\$ 11,902
Stock-based employee compensation included in reported net income, net of tax	--	102	165	299
Stock-based employee compensation determined under the fair value based method, net of tax	(735)	(968)	(1,772)	(2,486)
Pro forma net income	\$ 4,778	\$ 2,820	\$ 10,154	\$ 9,715
Basic income per share:				
As reported	\$ 0.41	\$ 0.28	\$ 0.89	\$ 0.90
Pro forma	\$ 0.35	\$ 0.21	\$ 0.77	\$ 0.73
Diluted income per share:				
As reported	\$ 0.39	\$ 0.26	\$ 0.85	\$ 0.83
Pro forma	\$ 0.34	\$ 0.20	\$ 0.74	\$ 0.68

## NOTE K - COMPREHENSIVE INCOME

Comprehensive income for the three- and nine-month periods ended September 30, 2005, after considering other comprehensive income including unrealized loss on marketable securities of \$152 and \$319 was \$5,361 and \$11,442, respectively. For the comparable periods ended September 30, 2004, after considering other comprehensive gain (loss) on marketable securities of \$200 and \$(702), comprehensive income was \$3,886 and \$11,200 respectively.



Notes to Consolidated Financial Statements - Unaudited  
September 30, 2005  
(\$ in thousands except per share data)

NOTE L - RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), which replaced SFAS No. 123, "Accounting for Stock-Based Compensation", and superseded APB Opinion 25, "Accounting for Stock Issued to Employees". SFAS 123R requires that all share-based payments to employees be recognized in the financial statements based on their fair values on the date of grant. The Company currently uses the intrinsic value method to measure compensation expense for stock-based awards. Note J above, entitled "Stock-Based Compensation", provides pro forma net income and earnings per share as if the Company had used a fair-value based method provided by SFAS 123R to measure stock-based compensation for the periods ending September 30, 2005 and 2004. On April 14, 2005, the SEC amended the compliance dates for SFAS 123R, which extended the Company's required adoption date of SFAS 123R to the first quarter of 2006. The Company is evaluating the requirements of SFAS 123R and expects that its adoption will have a material impact on the Company's results of operations and earnings per share.

NOTE M - COMMITMENTS, CONTINGENCIES AND OTHER

[1] Indictment:

On June 20, 2000, Steven Madden, the Company's former Chairman and Chief Executive Officer, was indicted in the United States District Courts for the Southern District and Eastern District of New York. The indictments alleged that Mr. Madden engaged in securities fraud and money laundering activities. In addition, the Securities and Exchange Commission filed a complaint in the United States District Court for the Eastern District of New York alleging that Mr. Madden violated Section 17(a) of the Securities Exchange Act of 1934, as amended. On May 21, 2001, Steven Madden entered into a plea agreement with the U.S. Attorney's Office, pursuant to which he pled guilty to four of the federal charges filed against him. In addition, Mr. Madden reached a separate settlement agreement with the Securities and Exchange Commission regarding the allegations contained in its complaint. As a result, Mr. Madden resigned as the Company's Chief Executive Officer and as a member of the Company's Board of Directors effective July 1, 2001. Mr. Madden agreed to serve as the Company's Creative and Design Chief, a non-executive position. On April 4, 2002, Mr. Madden was sentenced in the United States District Court for the Southern District of New York to forty-one (41) months' imprisonment in connection with two of the federal charges to which he pled guilty.

On May 3, 2002, Mr. Madden was sentenced in the United States District Court for the Eastern District of New York to forty-one (41) months' imprisonment in connection with the remaining two charges to which he pled guilty. The sentences ran concurrently. Under the settlement agreement with the Securities and Exchange Commission, Mr. Madden agreed not to serve as an officer or director of a publicly traded company for 7 years. Neither the indictments nor the Securities and Exchange Commission complaint allege any wrongdoing by the Company or its other officers and directors. Mr. Madden began serving his sentence in September of 2002. On April 14, 2005, Mr. Madden was released from federal prison and has returned to work at the Company as its Creative and Design Chief, a non-executive position.

In December 2001, the Company purchased a loss mitigation policy to cover costs arising out of lawsuits related to the June 2000 federal indictment of Steven Madden described above. The policy covers the Company's anticipated damages and legal costs in connection with such lawsuits. The Company is obligated to pay for damages and costs in excess of the policy limits. The cost of the policy was \$6.9 million. On June 1, 2004, the aforementioned lawsuits were settled for damages and costs that were below the policy limits.

Notes to Consolidated Financial Statements - Unaudited  
September 30, 2005  
(\$ in thousands except per share data)

NOTE M - COMMITMENTS, CONTINGENCIES AND OTHER (CONTINUED)

[2] Other Actions:

- (a) On December 15, 2003, the Company commenced an action against LaRue Distributors, Inc. ("LaRue") in the United States District Court for the Southern District of New York. The Company sought a declaratory judgment that the Company properly terminated a license agreement with LaRue and monetary damages for breach of the license agreement and trademark infringement by LaRue. On January 20, 2004, LaRue served an answer and counterclaim alleging that the license agreement was improperly terminated by the Company and seeking \$9,900,000 in compensatory damages, as well as additional punitive damages. The parties served cross-motions for summary judgment which were submitted to the court on February 28, 2005. On August 1, 2005, the parties agreed to a settlement pursuant to which the Company paid LaRue \$1,500,000 in full satisfaction of any and all claims relating to this action. A Stipulation of Dismissal, with prejudice, has been filed with the court and the parties have exchanged general releases.
- (b) On or about July 9, 2004, an action was filed in the United States District Court for the Southern District of New York against the Company by Robert Marc for trademark infringement, captioned Robert Marc v. Steven Madden, Ltd. Case No. 04 CV 5354 (JGK). In the action, Robert Marc claimed trademark infringement in connection with a "bar and dot" design on the sides of certain eyewear. The alleged infringing eyeglasses are manufactured and sold by the Company's licensee for eyewear, Colors in Optics, which was also a defendant in the action. Colors in Optics assumed responsibility for the defense of this action. The matter was settled with no payment of money by Steven Madden, Ltd. The case was dismissed on May 10, 2005.
- (c) On or about December 20, 2004, an action was filed in the United States District Court for the Central District of California against the Company by Global Brand Marketing, Inc. (GBMI) for patent infringement, captioned Global Brand Marketing, Inc. v. Steven Madden, Ltd., Case No. CV 04-10339 (RJK-AJW (RZx)). In the action, GBMI claimed infringement of a design patent in connection with a shoe sold by Steven Madden, Ltd. referred to as the "Ronan". The parties settled the matter on or about April 5, 2005 and a dismissal was filed on April 27, 2005. The settlement did not have a material effect on the Company's financial position.
- (d) On July 28, 2005, adidas America, Inc., and adidas-Salomon AG (together, "adidas") filed a Demand for Arbitration (the "Demand") against Steve Madden, Ltd., and Steve Madden Retail, Inc. before the American Arbitration Association. In its Demand, adidas alleged that the parties had previously been engaged in a lawsuit over the Company's sale of sneakers that allegedly infringed adidas' "three stripe" mark. The parties settled that lawsuit by entering into a settlement agreement dated August 4, 2003 that prohibited the Company from selling shoes that contained adidas' "three-stripe" mark either with one additional stripe or with one less stripe. adidas alleged in the Demand that the Company was selling three shoes (the Finnley, the Troyy, and the Soccet) that adidas contends violates the settlement agreement and infringes adidas' "three-stripe" mark. The parties have been engaged in settlement discussions ever since, and the Company's time to answer the Demand has been continually extended. the Company's current deadline to answer the Demand is November 18. The Company believes it has substantial defenses to the claims asserted in the Demand for Arbitration.
- (e) On August 10, 2005, the U.S. Customs Department issued a report that asserts that certain commissions which the Company treated as buying agents commissions (which is non-dutiable), should be treated as "selling agents commissions" and hence is dutiable. In the report, Customs estimates that the Company had underpaid duties during the calendar years of 1998 through 2004 in the amount of \$1,051. Based on management's estimation at this point, a reserve of \$1,051 has been recorded as of the September 30, 2005 Financial Statements. Such reserve may in the future be modified to reflect the status of this matter.

Notes to Consolidated Financial Statements - Unaudited  
September 30, 2005  
(\$ in thousands except per share data)

NOTE M - COMMITMENTS, CONTINGENCIES AND OTHER (CONTINUED)

[2] Other Actions (continued):

- (f) The Company has been named as a defendant in certain other lawsuits in the normal course of business. In the opinion of management, after consulting with legal counsel, the liabilities, if any, resulting from these matters should not have a material effect on the Company's financial position or results of operations. It is the policy of management to disclose the amount or range of reasonably possible losses in excess of recorded amounts.

[3] Employment agreements:

- (a) Effective as of July 1, 2005, the Company amended its employment agreement with Steven Madden, the Company's Creative and Design Chief. The agreement provides for an annual salary of \$600,000, subject to certain specified adjustments, through June 30, 2015. The agreement also provides for annual bonuses based on EBITDA and on revenue for any new business, an annual option grant at exercise prices equal to the market price on the date of grant and a non-accountable expense allowance.
- (b) Effective as of July 1, 2005, the Company entered into an employment agreement with Awadhesh Sinha, pursuant to which Mr. Sinha will serve as the Company's Chief Operating Officer. The initial term of the agreement is three years through June 30, 2008, with successive one-year automatic renewal terms. The agreement provides for an annual salary of \$425,000 with annual increases and performance bonuses. The agreement requires the Company to accrue deferred cash compensation equal to 25% of the annual salary, payable to Mr. Sinha at the end of the term of the agreement.
- (c) Effective as of May 23, 2005, the Company amended its employment agreement with Richard Olicker, the Company's President. The agreement provides for an annual salary of \$453,747 through December 31, 2005. The agreement also provides for an annual performance bonus. Mr. Olicker will be leaving the Company in conjunction with the expiration of his employment agreement on December 31, 2005.

[4] Due From Factor:

On July 1, 2005, the Company entered into a factoring agreement with GMAC Commercial Finance LLC ("GMAC"). Under the terms of the agreement, the Company may request advances from GMAC of up to 80% of the aggregate receivables purchased by GMAC at an interest rate of two and one-half percent (2.5%) over the 30 day LIBOR. The Company will also pay a fee of 0.325% of the gross invoice amount of each receivable purchased. The Company assigns a substantial portion of its receivables, principally without recourse, to its factor. The agreement, which has no specific expiration date and can be terminated by either party with 60 days written notice after June 30, 2007, provides the Company with a \$25 million credit facility with a \$15 million sub-limit on direct borrowings. GMAC will maintain a lien on all of the Company's receivables and assume the credit risk for all assigned accounts approved by them with certain restrictions.

[5] Common Stock Dividend

On November 3, 2005, the Board of Directors declared a special dividend of \$1 per share payable to Steven Madden, Ltd. shareholders of record at the close of business on November 14, 2005. The dividend is payable on November 23, 2005.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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The following discussion of the Company's financial condition and results of operations should be read in conjunction with the unaudited Financial Statements and Notes thereto appearing elsewhere in this document.

Statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this document as well as statements made in press releases and oral statements that may be made by the Company or by officers, directors or employees of the Company acting on the Company's behalf that are not statements of historical or current fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other unknown factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. In addition to statements which explicitly describe such risks and uncertainties, readers are urged to consider statements labeled with the terms "believes", "belief", "expects", "intends", "anticipates" or "plans" to be uncertain forward-looking statements. The forward-looking statements contained herein are also subject generally to other risks and uncertainties that are described from time to time in the Company's reports and registration statements filed with the Securities and Exchange Commission.

Financial Overview:

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The Company's earnings per share increased 50% to \$0.39 per share for the quarter ended September 30, 2005 compared to \$0.26 per share for the same quarter of 2004. This follows a 39% increase in earnings per share realized by the Company during the quarter ended June 30, 2005. This substantial growth rate could not have been achieved without the hard work and coordinated effort by the management and employees of the Company. In particular, two employees have had an important positive impact on the operations of the Company. Steve Madden returned to the Company on April 14 of this year in the capacity of its Creative and Design Chief. The Company's impressive sales growth in this quarter is a testament to Mr. Madden's creative abilities. On July 1 of this year, Mr. Awadhesh Sinha joined the Company as its Chief Operating Officer. Mr. Sinha's efforts to improve the inventory management systems resulted in increased inventory turns and an increase in the gross profit percentage achieved during the third quarter of this year to 36% compared to 35% last year.

The dedicated resolve of the Company's workforce has resulted in successes in many areas of the business. These successes include:

1. Management has implemented new inventory controls and procedures in an attempt to reduce inventory levels. For example, "cut-to-order" inventory controls in the l.e.i. Footwear Wholesale Division ("l.e.i."), the Candie's Wholesale Division ("Candie's"), and Stevies Inc. ("Stevies") have resulted in reduced inventory levels in those divisions. Overall, total inventory has been reduced by 26% to \$22,663 as of September 30, 2005 compared to \$30,441 the previous year, even though sales increased by 13% for the quarter ended September 30, 2005 over the same period of 2004.
2. The Company's decision to broaden its product line continued to pay dividends this quarter. This is exemplified by the Madden Mens Wholesale Division ("Madden Mens") which has evolved into a "collection" brand offering a full assortment of dress, casual and sport footwear. The expanded product line has helped Madden Mens establish open stock programs with several customers and increase the number of doors with Dillard's and Nordstrom, all of which contributed to a net sales increase of 106% to \$15,062 in the third quarter of 2005 compared to \$7,329 in the same period of 2004. Another example of the Company's success in expanding its product line is the Company's entree into the young women and girls market via the Candie's division. Propelled by its success at Kohls, Candie's net sales increased 25% to \$6,712 in the third quarter of 2005 compared to \$5,364 in the same period last year.

In the Retail Division, same store sales (sales in stores that were in operation throughout all of the third quarters of 2005 and 2004) increased 12%. Store sales productivity remained high with sales per square foot of \$752. The Company is planning to open two to three new stores during the balance of 2005.

The Company's annualized inventory turnover increased to 7.9 times in the third quarter of 2005 compared to 7.6 times in the third quarter of 2004, reflecting the inventory reductions described above. The Company's accounts receivable average collection days improved to 62 days in the current quarter compared to 67 days last year.

As of September 30, 2005, the Company had \$99,627 in cash, cash equivalents and marketable securities, no short or long-term debt, and total stockholders equity of \$180,291. Working capital increased to \$125,354 as of September 30, 2005 compared to \$101,417 on December 31, 2004. During the nine-months ended September 30, 2005, net cash provided by operating activities increased to \$21,019 as compared to net cash used of \$5,308 in the same period last year.

The following tables set forth information on operations for the periods indicated:

Selected Financial Information				
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Nine Months Ended				
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September 30				
-----				
(\$ in thousands)				
	2005		2004	
	-----		-----	
Consolidated:				
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Net Sales	\$284,361	100%	\$253,612	100%
Cost of Sales	181,302	64	158,178	62
Gross Profit	103,059	36	95,434	38
Other Operating Income	5,241	2	3,224	1
Operating Expenses	88,902	31	79,635	31
Impairment of cost in excess of fair value of net assets acquired	519	0	--	--
Income from Operations	18,879	7	19,023	8
Interest and Other Income Net	1,398	0	1,497	0
Income Before Income Taxes	20,277	7	20,520	8
Net Income	11,761	4	11,902	5
By Segment				
WHOLESALE DIVISIONS:				
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Steven Madden, Ltd.				
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Madden Womens:				
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Net Sales	\$ 92,446	100%	\$ 89,005	100%
Cost of Sales	65,837	71	61,008	69
Gross Profit	26,609	29	27,997	31
Other Operating Income	1,744	2	1,748	2
Operating Expenses	23,695	26	21,736	24
Income from Operations	4,658	5	8,009	9
l.e.i. Footwear:				
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Net Sales	\$ 25,544	100%	\$ 31,086	100%
Cost of sales	17,460	68	21,621	70
Gross Profit	8,084	32	9,465	30
Operating Expenses	6,274	25	7,957	25
Income from Operations	1,810	7	1,508	5
Madden Mens:				
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Net Sales	\$ 41,526	100%	\$ 20,350	100%
Cost of sales	25,788	62	14,045	69
Gross Profit	15,738	38	6,305	31
Operating Expenses	9,069	22	5,829	29
Income from Operations	6,669	16	476	2

Selected Financial Information

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 Nine Months Ended

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 September 30

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 (\$ in thousands)

	----- 2005 -----		----- 2004 -----	
By Segment (Continued)				
WHOLESALE DIVISIONS:				
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Candie's Footwear:				
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Net Sales	\$ 16,448	100%	\$ 12,315	100%
Cost of sales	10,976	67	8,602	70
Gross Profit	5,472	33	3,713	30
Operating Expenses	4,290	26	3,245	26
Income from Operations	1,182	7	468	4
Diva Acquisition Corp. (Steven):				
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Net Sales	\$ 12,783	100%	\$ 17,931	100%
Cost of sales	9,958	78	10,929	61
Gross Profit	2,825	22	7,002	39
Operating Expenses	3,803	30	3,894	22
Income (loss) from Operations	(978)	(8)	3,108	17
Stevies Inc.:				
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Net Sales	\$ 6,737	100%	\$ 8,715	100%
Cost of sales	4,769	71	5,947	68
Gross Profit	1,968	29	2,768	32
Operating Expenses	1,415	21	2,026	23
Income from Operations	553	8	742	9
Unionbay Men's Footwear:				
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Net Sales	\$ 726	100%	\$ 320	100%
Cost of Sales	526	72	320	100
Gross Profit	200	28	0	0
Operating Expenses	163	23	497	155
Income (loss) from Operations	37	5	(497)	(155)
RETAIL DIVISION:				
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Steven Madden Retail Inc.:				
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Net Sales	\$ 88,151	100%	\$ 73,890	100%
Cost of Sales	45,988	52	35,706	48
Gross Profit	42,163	48	38,184	52
Operating Expenses	40,193	46	34,452	47
Impairment of cost in excess of fair value of net assets acquired	519	--	--	--
Income from Operations	1,451	2	3,732	5
Number of Stores	98		90	
ADESSO MADDEN INC.:				
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(FIRST COST)				
Other Operating Revenue - Net of expenses	\$ 3,497		\$ 1,477	

Selected Financial Information

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 Three Months Ended

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 September 30

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 (\$ in thousands)

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 2005

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 2004

Consolidated:

Net Sales	\$100,067	100%	\$ 88,610	100%
Cost of Sales	63,836	64	57,160	65
Gross Profit	36,231	36	31,450	35
Other Operating Income	2,217	2	1,175	1
Operating Expenses	29,447	29	26,758	30
Income from Operations	9,001	9	5,867	6
Interest and Other Income Net	504	1	488	1
Income Before Income Taxes	9,505	10	6,355	7
Net Income	5,513	6	3,686	4

By Segment

WHOLESALE DIVISIONS:

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 Steven Madden, Ltd.

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 Madden Womens:

Net Sales	\$ 33,000	100%	\$ 32,507	100%
Cost of Sales	23,254	71	22,925	71
Gross Profit	9,746	29	9,582	29
Other Operating Income	568	2	508	2
Operating Expenses	7,567	23	7,424	23
Income from Operations	2,747	8	2,666	8

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 l.e.i. Footwear:

Net Sales	\$ 9,650	100%	\$ 9,358	100%
Cost of sales	6,846	71	7,038	75
Gross Profit	2,804	29	2,320	25
Operating Expenses	2,216	23	1,968	21
Income from Operations	588	6	352	4

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 Madden Mens:

Net Sales	\$ 15,062	100%	\$ 7,329	100%
Cost of sales	9,584	64	4,948	68
Gross Profit	5,478	36	2,381	32
Operating Expenses	2,922	19	2,239	30
Income from Operations	2,556	17	142	2

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 Candie's Footwear:

Net Sales	\$ 6,712	100%	\$ 5,364	100%
Cost of sales	4,102	61	3,885	72
Gross Profit	2,610	39	1,479	28
Operating Expenses	1,459	22	1,356	25
Income from Operations	1,151	17	123	3

Selected Financial Information

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 Three Months Ended

-----  
 September 30

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 (\$ in thousands)

	----- 2005		----- 2004	
By Segment (Continued)				
Diva Acquisition Corp. (Steven):				
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Net Sales	\$ 3,719	100%	\$ 6,840	100%
Cost of sales	3,058	82	4,468	65
Gross Profit	661	18	2,372	35
Operating Expenses	1,239	33	1,431	21
Income (loss) from Operations	(578)	(15)	941	14
Stevies Inc.:				
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Net Sales	\$ 2,875	100%	\$ 3,227	100%
Cost of sales	1,917	67	2,196	68
Gross Profit	958	33	1,031	32
Operating Expenses	508	17	640	20
Income from Operations	450	16	391	12
Unionbay Men's Footwear:				
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Net Sales	\$ 0	0%	\$ 226	100%
Cost of Sales	0	0	169	75
Gross Profit	0	0	57	25
Operating Expenses	0	0	159	70
Loss from Operations	0	0	(102)	(45)
RETAIL DIVISION:				
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Steven Madden Retail Inc.:				
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Net Sales	\$ 29,049	100%	\$ 23,759	100%
Cost of Sales	15,075	52	11,531	49
Gross Profit	13,974	48	12,228	51
Operating Expenses	13,536	47	11,541	48
Income from Operations	438	1	687	3
Number of Stores	98		90	
ADESSO MADDEN INC.:				
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(FIRST COST)				
Other Operating Revenue - Net of expenses	\$ 1,649		\$ 667	



RESULTS OF OPERATIONS  
(\$ in thousands)

Nine Months Ended September 30, 2005 vs. Nine Months Ended September 30, 2004

Consolidated:  
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Total net sales for the nine-month period ended September 30, 2005 increased by 12% to \$284,361 from \$253,612 for the comparable period last year. Significant sales increases from Madden Mens, Candie's and the Retail Division as well as a modest increase from the Madden Womens Wholesale Division were partially offset by declines in Diva Acquisition Corp. ("Steven"), l.e.i. and Stevies.

Gross profit as a percentage of sales decreased to 36% in 2005 from 38% in 2004 reflecting gross profit declines in both the Wholesale and Retail Divisions. The decline in the Wholesale Divisions occurred primarily in the first quarter and was the result of the Company's decision to closeout slow moving inventory. Additionally, the weaker than anticipated performance of the Steven and Stevies Wholesale Divisions at retail necessitated high levels of inventory markdowns which resulted in lower than expected margins. The decline in the Retail Division was due to an increase in promotional activity, the liquidation of slow moving inventory combined with the liquidation of inventory at four outlet stores (three of which were temporary locations) that were closed during the third quarter.

Operating expenses increased to \$88,902 in 2005 from \$79,635 in 2004. The increase is primarily due to an increase in direct selling expenses reflective of the 12% growth in sales and the incremental payroll and occupancy costs associated with the operation of an additional eight retail stores (net). Other contributing factors were an increase of professional and accounting fees incurred by the Company in connection with management's assessment and the audit of internal controls pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, and the settlement of the LaRue lawsuit in the amount of \$1,500.

Income from operations was \$18,879 in 2005 compared to \$19,023 in 2004. Net income was \$11,761 in 2005 compared to \$11,902 in 2004.

Wholesale Divisions:  
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Steven Madden, Ltd. (Madden Womens, l.e.i. Footwear, Madden Mens and Candie's Footwear):

Sales from the Madden Womens Wholesale Division ("Madden Womens") accounted for \$92,446 or 33%, and \$89,005 or 35%, of total sales in 2005 and 2004, respectively. This increase resulted from higher sales to specialty footwear retailers. Gross profit as a percentage of sales decreased to 29% in 2005 from 31% in 2004, primarily due to the closeout of slow moving inventory and an increase in markdowns and allowances caused by higher promotional activities at retail during the early part of the year. Operating expenses increased to \$23,695 in 2005 from \$21,736 in 2004 primarily due to the aforementioned legal settlement of \$1,500 and due to increases in selling and related expenses. Income from operations for Madden Womens was \$4,658 in 2005 compared to \$8,009 in 2004.

Sales from the l.e.i. Footwear Wholesale Division ("l.e.i.") accounted for \$25,544 or 9%, and \$31,086 or 12%, of total sales in 2005 and 2004, respectively. This decrease in sales was primarily caused by planned reductions and the elimination of marginally profitable accounts. Gross profit as a percentage of sales increased to 32% in 2005 from 30% in 2004 due to a decrease in the liquidation of inventory. Operating expenses decreased to \$6,274 in 2005 from \$7,957 in 2004 due to a decrease in payroll expenses reflective of management's initiative to reduce the workforce in l.e.i. and due to a decrease in variable selling and related expenses. Income from operations for l.e.i. was \$1,810 in 2005 compared to \$1,508 in 2004.

Sales from the Madden Mens accounted for \$41,526 or 15%, and \$20,350 or 8%, of total sales in 2005 and 2004, respectively. This 104% increase in sales was driven by an increase in the number of doors at Dillards and Nordstom, and the introduction of a replenishment program, enabling retailers to generate weekly reorders with improved turn and profitability. The division continued its success with sport casual products while dress offerings were also successful, giving the division a broader and more balanced collection. Gross profit as a percentage of sales increased to 38% in 2005 from 31% in 2004 primarily due to a substantial decrease in markdowns and sales allowances. Operating expenses increased to \$9,069 in 2005 from \$5,829 in 2004. This increase is attributed to

increases in direct selling expenses, advertising and marketing expenses and an increase in payroll expense required to support the Madden Mens' rapid sales growth. Operating expenses as a percentage of sales decreased to 22% in 2005 compared to 29% in 2004. Income from operations for Madden Mens increased to \$6,669 in 2005 compared to \$476 in 2004.

Sales from Candie's accounted for \$16,448 or 6%, and \$12,315 or 5%, of total sales in 2005 and 2004, respectively. This 34% increase in sales is the result of the growth in the Kohl's business and the success of several products including sandals with embellished heels and embellished flats. Gross profit as a percentage of sales increased to 33% in 2005 from 30% in 2004 primarily due to improved inventory management resulting in lower inventory markdowns. Operating expenses increased to \$4,290 in 2005 from \$3,245 in 2004 due to increases in payroll expenses, licensing fees and selling and selling related expenses in order to position the Division for top line growth. Income from operations for Candie's was \$1,182 in 2005 compared to \$468 in 2004.

Diva Acquisition Corp. ("Steven"):

Sales from Steven accounted for \$12,783 or 4%, and \$17,931 or 7%, of total sales in 2005 and 2004, respectively. The decrease in sales was due to disappointing sales of closed toe dress shoes in the first half of the year, which was last year's bestseller. Additionally, last Fall's disappointing boot season caused Steven's customers to push initial boot orders to the end of the third quarter, eliminating the opportunity for any third quarter reorder business. Gross profit as a percentage of sales decreased to 22% in 2005 from 39% in 2004 due to a substantial increase in markdowns and allowances. Operating expenses remained virtually the same (\$3,803 in 2005 as compared to \$3,894 in 2004). Loss from operations for Steven was \$978 in 2005 compared to income from operations of \$3,108 in 2004.

Stevies Inc. ("Stevies"):

Sales from Stevies accounted for \$6,737 or 2%, and \$8,715 or 3%, of total sales in 2005 and 2004, respectively. The decrease was due to the poor performance of Stevies products at retail. Gross profit as a percentage of sales decreased to 29% in 2005 from 32% in 2004, primarily due to an increase of markdowns and allowances. Operating expenses decreased to \$1,415 in 2005 from \$2,026 in 2004 due to a 33% reduction in payroll expenses and a decrease in direct selling expenses. Income from operations for Stevies was \$553 in 2005 compared to \$742 in 2004.

Unionbay Men's Footwear ("Unionbay"):

Unionbay, the Company's license for young men's footwear, generated net sales of \$726 in 2005 compared to \$320 in 2004. During the third quarter of this year, Unionbay migrated to a commission-based "first-cost" business and thus its revenues are now included in the Adesso-Madden Division. Income from operations for Unionbay was \$37 in 2005 compared to a loss from operations of \$497 in 2004.

Retail Division:

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Sales from the Retail Division accounted for \$88,151 or 31% and \$73,890 or 29% of total sales in 2005 and 2004, respectively. As of September 30, 2005, there were 98 retail stores compared to 90 retail stores as of September 30, 2004. Comparable store sales (sales of those stores that were open for all of 2005 and 2004) for the nine-month period ended September 30, 2005 increased 10% over the same period of 2004. This increase was achieved through the early release and success of opened up sandals in spring, strong boot sales in the fall, and a substantial growth in Men's volume at the stores. Gross profit as a percentage of sales decreased to 48% in 2005 from 52% in 2004, primarily due to an increase in promotional activity and the liquidation of slow moving inventory combined with the liquidation of inventory at three outlet stores that were closed during the third quarter. Operating expenses for the Retail Division were \$40,193 in 2005 and \$34,452 in 2004. This increase was primarily due to increased payroll and payroll related expenses and higher occupancy expenses associated with the operation of eight additional stores in the current period and an increase in direct selling expenses. Income from operations for the Retail Division decreased to \$1,451 in 2005 compared to \$3,732 in 2004.

Adesso-Madden Division:

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Adesso-Madden, Inc. generated net commission revenues of \$3,496 in 2005, compared to \$1,477 in 2004. The increase was the result of the growth in first cost business with existing, as well as new customers, the expansion of the Company's private label business in men's footwear, the transition of Unionbay to a first cost commission based model and the cumulative contribution of commissions on international sales made on a direct-from-factory basis.

Three Months Ended September 30, 2005 vs. Three Months Ended September 30, 2004

Consolidated:

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Total net sales for the three-month period ended September 30, 2005 increased by 13% to \$100,067 from \$88,610 for the comparable period of 2004. Sales increases from the Retail Division, Madden Mens, Madden Womens, Candie's and l.e.i. were offset by declines in Steven and Stevies.

Gross profit as a percentage of sales increased to 36% in 2005 from 35% in 2004. Gross profit in the Wholesale Divisions increased 170 basis points primarily due to improved efficiencies in inventory management resulting in lower inventory markdowns. This was partially offset by a 340 basis point decline in the Retail Division attributed to the liquidation of inventory at four outlet stores closed during the quarter as well as the clearance of slow-moving inventory.

Operating expenses increased to \$29,447 in 2005 from \$26,758 in 2004. This increase resulted from higher payroll and payroll related expenses and higher occupancy expenses associated with the operation of eight additional retail stores in the current period and an increase in direct selling costs associated with the growth in sales. Operating expenses as a percentage of sales decreased to 29% in 2005 from 30% in 2004.

Income from operations was \$9,001 in 2005 compared to \$5,867 in 2004. Net income was \$5,513 in 2005 compared to \$3,686 in 2004. This increase in income was primarily due to the higher margins and the decrease in operating expenses as a percentage of sales.

Wholesale Divisions:

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Steven Madden, Ltd. (Madden Womens, l.e.i. Footwear, Madden Mens and Candie's Footwear):

Sales from Madden Womens accounted for \$33,000 or 33%, and \$32,507 or 37%, of total sales in 2005 and 2004, respectively. Sales were driven by the success of Western boots and city sandals, offset by a decrease in sales of dress shoes. Gross profit as a percentage of sales remained unchanged at 29% for both 2005 and 2004. Operating expenses increased slightly to \$7,567 in 2005 from \$7,424 in 2004. Income from operations for Madden Womens was \$2,747 in 2005 compared to \$2,666 in 2004.

Sales from l.e.i. accounted for \$9,650 or 10%, and \$9,358 or 11%, of total sales in 2005 and 2004, respectively. This increase in sales was driven by the success of Western boots. Gross profit as a percentage of sales increased to 29% in 2005 from 25% in 2004 due to a decrease in close-out sales and a reduction in markdowns and allowances. Operating expenses increased to \$2,216 in 2005 from \$1,968 in 2004. Income from operations for l.e.i. was \$588 in 2005 compared to \$352 in 2004.

Sales from Madden Mens accounted for \$15,062 or 15%, and \$7,329 or 8%, of total sales in 2005 and 2004, respectively. This 106% growth in sales is the result of an increase in volume at Journeys as well as an increase in the number of doors at Dillard's and Nordstrom. Additionally, the introduction of a replenishment program increased sales by enabling retailers to generate weekly reorders with improved turn and profitability. Gross profit as a percentage of sales increased to 36% in 2005 from 32% in 2004, primarily due to a substantial decrease in markdowns and allowances. Operating expenses increased to \$2,922 in 2005 from \$2,239 in 2004. As a percentage of sales, operating expenses decreased to 19% in 2005 from 30% in 2004. The increase in the dollar amount is due to an increase in payroll and related expenses required to support the rapid growth in the division. Income from operations for Madden Mens was \$2,556 in 2005 compared to \$142 in 2004.

Sales from Candie's accounted for \$6,712 or 7%, and \$5,364 or 6%, of total sales in 2005 and 2004, respectively. This 25% increase in sales is the result of growth in the Kohl's business and the success of several products including sandals, embellished heels and embellished flats. Gross profit as a percentage of sales increased to 39% in 2005 from 28% in 2004 due to a substantial reduction in markdowns and allowances and improved inventory management that resulted in lower inventory markdowns. Operating expenses increased to \$1,459 in 2005 from \$1,356 in 2004, due to increases in payroll expenses required to support the increase in sales. As a percentage of sales, operating expenses decreased to 22% in 2005 from 25% in 2004. Income from operations for Candie's was \$1,151 in 2005 compared to \$123 in 2004.

**Diva Acquisition Corp. ("Steven"):**

Sales from Steven accounted for \$3,719 or 4%, and \$6,840 or 8%, of total sales in 2005 and 2004, respectively. The sales decrease was the result of last Fall's disappointing boot season, which caused Steven's customers to trim initial boot orders this year. Gross profit as a percentage of sales decreased to 18% in 2005 from 35% in 2004, primarily due to a substantial increase in markdowns and allowances. Operating expenses decreased to \$1,239 in 2005 from \$1,431 in 2004 due principally to a decrease in advertising expenditures. Loss from operations for Steven was \$578 in 2005 compared to income from operations of \$941 in 2004.

**Stevies Inc. ("Stevies"):**

Sales from Stevies accounted for \$2,875 or 3%, and \$3,227 or 4%, of total sales in 2005 and 2004, respectively. Gross profit as a percentage of sales increased to 33% in 2005 from 32% in 2004, primarily due to a decrease in markdowns and allowances. Operating expenses decreased to \$508 in 2005 from \$640 in 2004. Income from operations for Stevies was \$450 in 2005 compared to \$391 in 2004.

**Unionbay Men's Footwear ("Unionbay"):**

During the third quarter of this year, Unionbay migrated to a commission-based "first-cost" business and thus its revenues and related costs are now included in the Adesso-Madden Division.

**Retail Division:**

Sales from the Retail Division accounted for \$29,049 or 29% and \$23,759 or 27% of total sales in 2005 and 2004, respectively. As of September 30, 2005, there were 98 retail stores compared to 90 retail stores as of September 30, 2004. Comparable store sales (sales of those stores that were open for all of the third quarters of 2005 and 2004) for the three-month period ended September 30, 2005 increased 12% over the same period of 2004. This increase was primarily due to the strong sales of Western boots as well as sandals and casuals. Gross profit as a percentage of sales decreased to 48% in 2005 from 51% in 2004 primarily due to the liquidation of inventory at four outlet stores (three of which were temporary locations) that closed during the quarter as well as the clearance of slow-moving inventory. Operating expenses for the Retail Division were \$13,536 in 2005 and \$11,541 in 2004. This increase was primarily due to increased payroll and payroll related expenses and higher occupancy expenses associated with the operation of eight additional retail stores in the current period. Income from operations for the Retail Division was \$438 in 2005 compared to \$687 in 2004.

**Adesso-Madden Division:**

Adesso-Madden, Inc. generated net commission revenues of \$1,649 in 2005, compared to \$667 in 2004. The increase was the result of the growth in first cost business with existing as well as new customers, the expansion of the Company's private label business in Madden Mens and Unionbay and the cumulative contribution of commissions on international sales made on a direct-from-factory basis.

**LICENSE AGREEMENTS**

Revenue generated from licensing remained at \$1,743 for both the nine months ended September 30, 2005 and 2004. As of September 30, 2005, the Company had four license partners covering five product categories of the Steve Madden brand. The product categories include hosiery, sunglasses, eyewear, handbags and belts.

## LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of \$125,354 at September 30, 2005 compared to \$101,417 at December 31, 2004. The Company's net income for the nine months ended September 30, 2005 contributed to the increase in working capital as well as the Company's decision to replace a portion of its non-current marketable securities with current marketable securities and cash equivalents.

Under the terms of a factoring agreement with GMAC, the Company is eligible to draw down 80% of its invoiced receivables at an interest rate of two and one-half percent (2.5%) over the 30 day LIBOR. The agreement, which has no specific expiration date and can be terminated by either party with 60 days written notice after June 30, 2007, provides the Company with a \$25 million credit facility with a \$15 million sub-limit on direct borrowings. GMAC maintains a lien on all of the Company's receivables and assumes the credit risk for all assigned accounts approved by them. As of September 30, 2005 the Company had not used any portion of the credit line.

As of September 30, 2005 the Company had invested \$43,919 in marketable securities consisting of corporate bonds, U.S. Treasury notes, government asset-backed securities and equities.

The Company believes that based upon its current financial position and available cash and marketable securities, it will meet all of its financial commitments and operating needs for at least the next twelve months.

## OPERATING ACTIVITIES

During the nine-month period ended September 30, 2005, net cash provided by operating activities was \$21,019. Sources of cash were provided primarily by the following: net income, a decrease in inventories of \$11,721, a decrease in prepaid expenses, prepaid taxes, deposits and other assets of \$1,771, and an increase in accounts payable and other accrued expenses of \$1,527. The primary use of cash was an increase in factored receivables of \$13,716 which is the result of an increase in sales during the months of August and September of 2005.

## CONTRACTUAL OBLIGATIONS

The Company's contractual obligations as of September 30, 2005 were as follows:

Contractual Obligations	Total	Payment due by period (in thousands)			2011 and after
		Remainder of 2005	2006-2008	2009-2010	
Operating Lease Obligations	\$ 87,355	\$ 2,982	\$ 36,713	\$ 19,194	\$ 28,466
Purchase Obligations	39,521	28,270	11,251	0	0
Other Long-Term Liabilities (future minimum royalty payments)	3,271	668	2,603	0	0
Total	\$ 130,147	\$ 31,920	\$ 50,567	\$ 19,194	\$ 28,466

At September 30, 2005, the Company had un-negotiated open letters of credit for the purchase of imported merchandise of approximately \$11,957.

The Company has an employment agreement with Steven Madden, its Creative and Design Chief, which provides for an annual base salary of \$600 subject to certain specified adjustments, through June 30, 2015. The agreement also provides for annual bonuses based on EBITDA and on revenue of any new business, an annual option grant at exercise prices equal to the market price on the date of grant and a non-accountable expense allowance.

The Company has employment agreements with certain executives, which provide for the payment of compensation aggregating approximately \$1,964 in 2005, \$1,391 in 2006 and \$1,175 in 2007. In addition, such employment agreements provide for incentive compensation based on various performance criteria as well as other benefits. The Chief Operating Officer of the Company is entitled to deferred compensation calculated as a percentage of his base salary.

Significant portions of the Company's products are produced at overseas locations, the majority of which are located in Brazil, China, Italy and Spain. The Company has not entered into any long-term manufacturing or supply contracts with any of these foreign companies. The Company believes that a sufficient number of alternative sources exist outside of the United States for the manufacture of its products. In addition, the Company currently makes approximately ninety-seven percent (97%) of its purchases in U.S. dollars.

#### INVESTING ACTIVITIES

During the nine-month period ended September 30, 2005, the Company invested \$1,156 in marketable securities and received \$5,629 from the maturities and sales of securities. The Company incurred capital expenditures of \$4,144 principally for leasehold improvements for the ten additional retail stores that were opened during the period as well as for additional showroom space and upgrades to the computer systems.

#### FINANCING ACTIVITIES

During the nine-month period ended September 30, 2005, the Company repurchased 444,000 shares of the Company's common stock at a total cost of \$7,735.

#### INFLATION

The Company does not believe that the relatively low rates of inflation experienced over the last few years in the United States, where it primarily competes, have had a significant effect on sales, expenses or profitability.

#### CRITICAL ACCOUNTING POLICIES AND THE USE OF ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's unaudited consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. Estimates by their nature are based on judgments and available information. Estimates are made based upon historical factors, current circumstances and the experience and judgment of management. Assumptions and estimates are evaluated on an ongoing basis and the Company may employ outside experts to assist in evaluations. Therefore, actual results could materially differ from those estimates under different assumptions and conditions. Management believes the following critical accounting estimates are more significantly affected by judgments and estimates used in the preparation of the Company's consolidated financial statements: accounts receivable and inventory reserves, valuation of intangible assets, and litigation reserves.

Allowances for bad debts, returns, and customer chargebacks. The Company provides reserves against its trade accounts receivables for future customer chargebacks, co-op advertising allowances, discounts, returns and other miscellaneous deductions that relate to the current period. The reserve against the Company's non-factored trade receivables also includes estimated losses that may result from customers' inability to pay. The amount of the reserve is determined by analyzing aged receivables, current economic conditions, the prevailing retail environment and historical dilution levels for customers. Failure to correctly estimate the amount of the reserve could materially impact the Company's results of operation and financial position.

Inventory reserves. Inventories are stated at lower of cost or market, on a first in first out basis. The Company reviews inventory on a regular basis for excess and slow moving inventory. The review is based on an analysis of inventory on hand, prior sales, and expected net realizable value through future sales. The analysis includes a review of inventory quantities on hand at

period-end in relation to year-to-date sales and projections for sales in the foreseeable future. The Company considers quantities on hand in excess of estimated future sales to be at risk for market impairment. The net realizable value, or market value, is determined based on the estimate of sales prices of such inventory through off-price or discount store channels. The likelihood of any material inventory write-down is dependent primarily on the expectation of future consumer demand for the Company's product. A misinterpretation or misunderstanding of future consumer demand for the Company's product, the economy, or other failure to estimate correctly, could result in inventory valuation changes, either favorably or unfavorably, compared to the valuation determined to be appropriate as of the balance sheet date.

Valuation of intangible assets. SFAS No. 142, which was adopted by the Company on January 1, 2002, requires that goodwill and intangible assets with indefinite lives no longer be amortized, but rather be tested for impairment at least annually. This pronouncement also requires that intangible assets with finite lives be amortized over their respective lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144. In accordance with SFAS No. 144, long-lived assets, such as property, equipment, leasehold improvements and goodwill subject to amortization, are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Litigation reserves. Estimated amounts for litigation claims that are probable and can be reasonably estimated are recorded as liabilities in the Company's consolidated balance sheet. The likelihood of a material change in these estimated reserves would be dependent on new claims as they may arise and the favorable or unfavorable events of a particular litigation. As additional information becomes available, management will assess the potential liability related to the pending litigation and revise their estimates. Such revisions in management's estimates of the contingent liability could materially impact the Company's results of operation and financial position.

All costs incurred to bring finished products to the warehouse are included in the cost of sales line item of the Company's Consolidated Statement of Operations. These include purchase commissions, letter of credit fees, FOB costs, sample expenses, custom duty, inbound freight, labels and product packaging. All warehouse and distribution costs are included in the operating expenses line item of the Company's Consolidated Statement of Operations. The Company classifies all shipping costs to customers as operating expenses. The Company's gross margins may not be comparable to other companies in the industry because some companies may include warehouse and distribution costs as a component of cost of sales, while other companies report on the same basis as the Company and include them in operating expenses.

#### OTHER CONSIDERATIONS

Fashion Industry Risks: The success of the Company will depend in a significant part upon its ability to anticipate and respond to product and fashion trends as well as to anticipate, gauge and react to changing consumer demands in a timely manner. There can be no assurance that the Company's products will correspond to the changes in taste and demand or that the Company will be able to successfully market products that respond to such trends. If the Company misjudges the market for its products, it may be faced with significant excess inventories for some products and missed opportunities for others. In addition, misjudgments in merchandise selection could adversely affect the Company's image with its customers resulting in lower sales and increased markdown allowances for customers which could have a material adverse effect on the Company's business, financial condition and results of operations.

The industry in which the Company operates is cyclical, with purchases tending to decline during recessionary periods when disposable income is low. Purchases of contemporary shoes and accessories tend to decline during recessionary periods and also may decline at other times. While the Company has fared well in recent years in a difficult retail environment, there can be no assurance that the Company will be able to return to its historical rate of growth in revenues and earnings, or remain profitable in the future. A recession in the national or regional economies or uncertainties regarding future economic prospects, among other things, could affect consumer spending habits and have a material adverse effect on the Company's business, financial condition and results of operations.

In recent years, the retail industry has experienced consolidation and other ownership changes. In the future, retailers in the United States and in foreign markets may consolidate, undergo restructurings or reorganizations, or realign their affiliations, any of which could decrease the number of stores that carry the Company's products or increase the ownership concentration within the retail industry. While such changes in the retail industry to date have not had a material adverse effect on the Company's business or financial condition, there can be no assurance as to the future effect of any such changes.

**Inventory Management:** The fashion-oriented nature of the Company's products and the rapid changes in customer preferences leave the Company vulnerable to an increased risk of inventory obsolescence. Thus, the Company's ability to manage its inventories properly is an important factor in its operations. Inventory shortages can adversely affect the timing of shipments to customers and diminish sales and brand loyalty. Conversely, excess inventories can result in lower gross margins due to the excessive discounts and markdowns that might be necessary to reduce inventory levels. The inability of the Company to effectively manage its inventory would have a material adverse effect on the Company's business, financial condition and results of operations.

**Dependence Upon Customers and Risks Related to Extending Credit to Customers:** The Company's customers consist principally of department stores and specialty stores, including shoe boutiques. Certain of the Company's department store customers, including some under common ownership, account for significant portions of the Company's wholesale business.

The Company generally enters into a number of purchase order commitments with its customers for each of its lines every season and does not enter into long-term agreements with any of its customers. Therefore, a decision by a significant customer of the Company, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from the Company or to change its manner of doing business could have a material adverse effect on the Company's business, financial condition and results of operations. The Company sells its products primarily to retail stores across the United States and extends credit based on an evaluation of each customer's financial condition, usually without collateral. While various retailers, including some of the Company's customers, have experienced financial difficulties in the past few years which increased the risk of extending credit to such retailers, the Company's losses due to bad debts have been limited. Pursuant to the Factoring Agreement between GMAC and the Company, GMAC currently assumes the credit risk related to approximately 95% of the Company's accounts receivables. However, financial difficulties of a customer could cause the Company to curtail business with such customer or require the Company to assume more credit risk relating to such customer's account receivable.

**Impact of Foreign Manufacturers:** Substantial portions of the Company's products are currently sourced outside the United States through arrangements with a number of foreign manufacturers in four different countries. During the nine-month period ended September 30, 2005, approximately 90% of the Company's products were purchased from sources outside the United States, primarily from China, Brazil, Italy and Spain.

Risks inherent in foreign operations include work stoppages, transportation delays and interruptions, and changes in social, political and economic conditions which could result in the disruption of trade from the countries in which the Company's manufacturers or suppliers are located, the imposition of additional regulations relating to imports, the imposition of additional duties, taxes and other charges on imports, significant fluctuations of the value of the dollar against foreign currencies, or restrictions on the transfer of funds, any of which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company does not believe that any such economic or political condition will materially affect the Company's ability to purchase products, since a variety of materials and alternative sources are available. The Company cannot be certain, however, that it will be able to identify such alternative sources without delay (if ever) or without greater cost to the Company. The Company's inability to identify and secure alternative sources of supply in this situation would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's imported products are also subject to United States customs duties. The United States and the countries in which the Company's products are produced or sold, from time to time, impose new quotas, duties, tariffs, or other restrictions, or may adversely adjust prevailing quota, duty or tariff levels, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.



Possible Adverse Impact of Unaffiliated Manufacturers' Inability to Manufacture in a Timely Manner, Meet Quality Standards or to Use Acceptable Labor Practices: As is common in the footwear industry, the Company contracts for the manufacture of a majority of its products to its specifications through foreign manufacturers. The Company does not own or operate any manufacturing facilities and is therefore dependent upon independent third parties for the manufacture of all of its products. The Company's products are manufactured to its specifications by both domestic and international manufacturers. The inability of a manufacturer to ship orders of the Company's products in a timely manner or to meet the Company's quality standards could cause the Company to miss the delivery date requirements of its customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Although the Company enters into a number of purchase order commitments each season specifying a time frame for delivery, method of payment, design and quality specifications and other standard industry provisions, the Company does not have long-term contracts with any manufacturer. As a consequence, any of these manufacturing relationships may be terminated, by either party, at any time. Although the Company believes that other facilities are available for the manufacture of the Company's products, both within and outside of the United States, there can be no assurance that such facilities would be available to the Company on an immediate basis, if at all, or that the costs charged to the Company by such manufacturers will not be greater than those presently paid.

The Company requires its licensing partners and independent manufacturers to operate in compliance with applicable laws and regulations. While the Company promotes ethical business practices and the Company's staff periodically visits and monitors the operations of its independent manufacturers, the Company does not control such manufacturers or their labor practices. The violation of labor or other laws by an independent manufacturer of the Company or by one of the Company's licensing partners, or the divergence of an independent manufacturer's or licensing partner's labor practices from those generally accepted as ethical in the United States, could have a material adverse effect on the Company's business, financial condition and results of operations.

Intense Industry Competition: The fashion footwear industry is highly competitive and barriers to entry are low. The Company's competitors include specialty companies as well as companies with diversified product lines. The recent market growth in the sales of fashionable footwear has encouraged the entry of many new competitors and increased competition from established companies. Most of these competitors, including Diesel, Kenneth Cole, Nine West, DKNY, Skechers, Nike and Guess, may have significantly greater financial and other resources than the Company and there can be no assurance that the Company will be able to compete successfully with other fashion footwear companies. Increased competition could result in pricing pressures, increased marketing expenditures and loss of market share, and could have a material adverse effect on the Company's business, financial condition and results of operations. The Company believes effective advertising and marketing, branding of the Steve Madden name, fashionable styling, high quality and value are the most important competitive factors and plans to continually employ these elements as it develops its products. The Company's inability to effectively advertise and market its products could have a material adverse effect on the Company's business, financial condition and results of operations.

Expansion of Retail Business: The Company's continued growth depends to a significant degree on further developing the Steve Madden(R), Stevies, Steven, Steve Madden Mens, l.e.i.(R) , Unionbay(R) and Candie's(R) brands, creating new product categories and businesses and operating Company-owned stores on a profitable basis. During the first nine months of 2005 the Company opened ten Steve Madden retail stores and has plans to open approximately two to three additional stores during the remainder of 2005. The Company's recent and planned expansion includes the opening of stores in new geographic markets as well as strengthening existing markets. New markets have in the past presented, and will continue to present, competitive and merchandising challenges that are different from those faced by the Company in its existing markets. There can be no assurance that the Company will be able to open new stores, and if opened, that such new stores will be able to achieve sales and profitability levels consistent with management's expectations. The Company's retail expansion is dependent on a number of factors, including the Company's ability to locate and obtain favorable store sites, the performance of the Company's wholesale and retail operations, and the ability of the Company to manage such expansion and hire and train personnel. Past comparable store sales results may not be indicative of future results, and there can be no assurance that the Company's comparable store sales results can be maintained or will increase in the future. In addition, there can be no assurance that the Company's strategies to increase other sources of revenue, which may include expansion of its licensing activities, will be successful or that the Company's overall sales or profitability will increase or not be adversely affected as a result of the implementation of such retail strategies.

The Company's operations have increased and will continue to increase demand on the Company's managerial, operational and administrative resources. The Company has recently invested significant resources in, among other things, its management information systems and hiring and training new personnel. However, in order to manage currently anticipated levels of future demand, the Company may be required to, among other things, expand its distribution facilities, establish relationships with new manufacturers to produce its products, and continue to expand and improve its financial, management and operating systems. There can be no assurance that the Company will be able to manage future growth effectively and a failure to do so could have a material adverse effect on the Company's business, financial condition and results of operations.

**Seasonal and Quarterly Fluctuations:** The Company's results may fluctuate quarter to quarter as a result of the timing of holidays, weather, the timing of larger shipments of footwear, market acceptance of the Company's products, the mix, pricing and presentation of the products offered and sold, the hiring and training of additional personnel, inventory write downs, the cost of materials, the product mix between wholesale and licensing businesses, the incurrence of other operating costs and factors beyond the Company's control, such as general economic conditions and the actions of competitors. In addition, the Company expects that its sales and operating results may be significantly impacted by the opening of new retail stores and the introduction of new products. Accordingly, the results of operations in any quarter will not necessarily be indicative of the results that may be achieved for a full fiscal year or any future quarter.

**Trademark and Service Mark Protection:** The Company believes that its trademarks and service marks and other proprietary rights are important to its success and its competitive position. Accordingly, the Company devotes substantial resources to the establishment and protection of its trademarks on a worldwide basis. Nevertheless, there can be no assurance that the actions taken by the Company to establish and protect its trademarks and other proprietary rights will be adequate to prevent imitation of its products by others or to prevent others from seeking to block sales of the Company's products on the basis that they violate the trademarks and proprietary rights of others. Moreover, no assurance can be given that others will not assert rights in, or ownership of, trademarks and other proprietary rights of the Company or that the Company will be able to successfully resolve such conflicts. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States. The failure of the Company to establish and then protect its proprietary rights from unlawful and improper utilization could have a material adverse effect on the Company's business, financial condition and results of operations.

**Foreign Currency Fluctuations:** The Company generally purchases its products in U.S. dollars. However, the Company sources substantially all of its products overseas and, as such, the cost of these products may be affected by changes in the value of the relevant currencies. Changes in currency exchange rates may also affect the relative prices at which the Company and foreign competitors sell their products in the same market. There can be no assurance that foreign currency fluctuations will not have a material adverse effect on the Company's business, financial condition and results of operations.

**Outstanding Options:** As of November 7, 2005 there were outstanding options to purchase an aggregate of approximately 1,515,603 shares of Common Stock. Holders of such options are likely to exercise them when, in all likelihood, the market price of the Company's stock is significantly higher than the exercise price of the options. Further, while its options are outstanding, they may adversely affect the terms on which the Company could obtain additional capital, if required.

**Economic and Political Risks:** The present economic condition in the United States and concern about uncertainties could significantly reduce the disposable income available to the Company's customers for the purchase of the Company's products. In addition, current unstable political conditions, including the potential or actual conflicts in Iraq, North Korea or elsewhere, or the continuation or escalation of terrorism, could have an adverse effect on the Company's business, financial condition and results of operations.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not engage in the trading of market risk sensitive instruments in the normal course of business. Financing arrangements for the Company are subject to variable interest rates primarily based on LIBOR. An analysis of the Company's factoring agreements with GMAC can be found in the Liquidity and Capital Resource section under Item 2 of this document. As of September 30, 2005 and September 30, 2004, there were no direct borrowings outstanding under the credit agreement.

As of September 30, 2005, the Company had investments in marketable securities valued at \$43,919, which consists primarily of corporate bonds, U.S. treasury notes and government asset-backed securities that have various maturities through December 2009, as well as marketable equity securities. These investments are subject to interest rate risk and will decrease in value if market interest rates increase. The Company currently has the ability to hold these investments until maturity. Should there be a significant increase in interest rates, the value of these investments would be negatively affected unless they were held to maturity. In addition, any further decline in interest rates would reduce the Company's interest income.

#### ITEM 4. CONTROLS AND PROCEDURES

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act"), the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of its disclosure controls and procedures as of the end of the fiscal quarter covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) were effective as of the end of the fiscal quarter covered by this quarterly report. As required by Rule 13a-15(d) under the Exchange Act, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal controls over financial reporting to determine whether any changes occurred during the quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this quarterly report.

## Part II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Certain legal proceedings in which the Company is involved are discussed in Note M and Part I, Item 3 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. The following discussion is limited to recent developments concerning certain of the Company's legal proceedings and should be read in conjunction with the Company's earlier SEC reports. Unless otherwise indicated, all proceedings discussed in those earlier reports remain outstanding.

#### Indictment:

On June 20, 2000, Steven Madden, the Company's former Chairman and Chief Executive Officer, was indicted in the United States District Courts for the Southern District and Eastern District of New York. The indictments alleged that Mr. Madden engaged in securities fraud and money laundering activities. In addition, the Securities and Exchange Commission filed a complaint in the United States District Court for the Eastern District of New York alleging that Mr. Madden violated Section 17(a) of the Securities Exchange Act of 1934, as amended. On May 21, 2001, Steven Madden entered into a plea agreement with the U.S. Attorney's Office, pursuant to which he pled guilty to four of the federal charges filed against him. In addition, Mr. Madden reached a separate settlement agreement with the Securities and Exchange Commission regarding the allegations contained in its complaint. As a result, Mr. Madden resigned as the Company's Chief Executive Officer and as a member of the Company's Board of Directors effective July 1, 2001. Mr. Madden agreed to serve as the Company's Creative and Design Chief, a non-executive position. On April 4, 2002, Mr. Madden was sentenced in the United States District Court for the Southern District of New York to forty-one months' imprisonment in connection with two of the federal charges to which he pled guilty.

On May 3, 2002, Mr. Madden was sentenced in the United States District Court for the Eastern District of New York to forty-one months' imprisonment in connection with the remaining two charges to which he pled guilty. The sentences ran concurrently. Under the settlement agreement with the Securities and Exchange Commission, Mr. Madden agreed to not serve as an officer or director of a publicly traded company for 7 years. Neither the indictments nor the Securities and Exchange Commission complaint allege any wrongdoing by the Company or its other officers and directors. Mr. Madden began serving his sentence in September of 2002. On April 14, 2005, Mr. Madden was released from federal prison and has returned to work at the Company as its Creative and Design Chief, a non-executive position.

In December 2001, the Company purchased a loss mitigation policy to cover costs arising out of lawsuits related to the June 2000 federal indictment of Steven Madden described above. The policy covers the Company's anticipated damages and legal costs in connection with such lawsuits. The Company is obligated to pay for damages and costs in excess of the policy limits. The cost of the policy was \$6.9 million. On June 1, 2004, the aforementioned lawsuits were settled for damages and costs that were below the policy limits.

#### Other Actions:

On July 28, 2005, adidas America, Inc., and adidas-Salomon AG (together, "adidas") filed a Demand for Arbitration against Steve Madden, Ltd., and Steve Madden Retail, Inc. before the American Arbitration Association. In its Demand, adidas alleged that the parties had previously been engaged in a lawsuit over the Company's sale of sneakers that allegedly infringed adidas' "three stripe" mark. The parties settled that lawsuit by entering into a settlement agreement dated August 4, 2003 that prohibited the Company from selling shoes that contained adidas' "three-stripe" mark either with one additional stripe or with one less stripe. adidas alleged in the Demand that the Company was selling three shoes (the Finnley, the Troyy, and the Soccet) that adidas contends violates the settlement agreement and infringes adidas' "three-stripe" mark. The parties have been engaged in settlement discussions ever since, and the Company's time to answer the Demand has been continually extended. The Company's current deadline to answer the Demand is November 18. The Company believes it has substantial defenses to the claims asserted in the Demand for Arbitration.

The Company has been named as a defendant in certain other lawsuits in the normal course of business. In the opinion of management, after consulting with legal counsel, the liabilities, if any, resulting from these matters should not have a material effect on the Company's financial position or results of operations. It is the policy of management to disclose the amount or range of reasonably possible losses in excess of recorded amounts.

#### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS:

The Company did not repurchase any of its common stock during the quarter ended September 30, 2005.

#### ITEM 6. EXHIBITS

(31.1) Certification of Chief Executive Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley act of 2002.

(31.2) Certification of Chief Financial Officer pursuant to Rule 13a-14 or 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley act of 2002.

(32.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report on Form 10-Q/A to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: November 10, 2005

STEVEN MADDEN, LTD.

/s/ JAMIESON A. KARSON

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Jamieson A. Karson  
Chairman and Chief Executive Officer

/s/ ARVIND DHARIA

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Arvind Dharja  
Chief Financial Officer

Exhibit No -----	Description -----
10.1	Third Amended and Restated Employment Agreement between the Company and Steven Madden, effective as of July 1, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 20, 2005).
10.2	Employment Agreement between the Company and Awadhesh Sinha, dated as of June 15, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 21, 2005).
10.3	Amendment Number 2 to Employment Agreement between the Company and Richard Olicker, dated as of May 23, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 16, 2005).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to section 302 of the Sarbanes-Oxley act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE  
SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002

I, Jamieson A. Karson, certify that:

1. I have reviewed this Amendment No. 1 to the quarterly report on Form 10-Q of Steven Madden, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 10, 2005

By: /s/ JAMIESON A. KARSON

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Jamieson A. Karson  
Chairman and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF THE  
SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002

I, Arvind Dharia, certify that:

1. I have reviewed this Amendment No. 1 to the quarterly report on Form 10-Q of Steven Madden, Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 10, 2005

By: /s/ ARVIND DHARIA

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Arvind Dharia  
Chief Financial Officer



STEVEN MADDEN, LTD.  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Amendment No. 1 to the quarterly report of Steven Madden, Ltd. (the "Company") on Form 10-Q for the quarter ended September 30, 2005 (the "Report"), I, Jamieson A. Karson, Chairman and Chief Executive Officer of the Company, certify, pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JAMIESON A. KARSON

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Jamieson A. Karson  
Chairman and Chief Executive Officer  
November 10, 2005

STEVEN MADDEN, LTD.  
CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350  
ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with this Amendment No. 1 to the quarterly report of Steven Madden, Ltd. (the "Company") on Form 10-Q for the quarter ended September 30, 2005 (the "Report"), I, Arvind Dharia, Chief Financial Officer of the Company, certify, pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ARVIND DHARIA

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Arvind Dharia  
Chief Financial Officer  
November 10, 2005